Lease vs. Purchase

Rabbanai T. Morgan
Chief, Contingency Contracting Team
Revised 6 July 2005

Lease vs. Purchase

Overview

- Governing Directives
- Definitions
- Factors to Consider
- Appropriateness of Lease/Purchase Methods
- Lease Periods
- Lease vs. Purchase Analysis
- Summary

Lease vs. Purchase

Governing Directives

- FAR 7.4 Equipment Lease or Purchase
- DFARS 207.4, Equipment Lease or Purchase
- FMR 7000.14-R, Volume 4, Chapter 7, Section 070207
- DoDI 7041.3, Economic Analysis for Decision Making

Lease vs. Purchase

- A lease conveys an asset or part of an asset (such as part of a building) from one party (the lessor) to another party (the lessee) for a specified period of time in return for rent or other compensation (consideration)
  - Operating Lease - Use O&M Funds
  - Capital Lease - Use Procurement Funds
    - A lease is essentially an installment purchase (capital lease) if it transfers ownership of an asset to the lessee at the end of the lease term or the lease contains an option to purchase at the end of the lease term.

DoD 7000.14R), Volume 4, Chapter 7, Paragraph, 070207

Lease vs. Purchase

7.401 -- Acquisition Considerations

- (a) Agencies should consider whether to lease or purchase equipment based on a case-by-case evaluation of comparative costs and other factors. The following factors are the minimum that should be considered:
  - Length of equipment lease and extent of use
  - Financial & operating advantages of alternative types/makes of equipment
  - Cumulative rental payments for estimated period of use
  - Net purchase price
  - Transportation and installation costs
  - Maintenance and other service costs
  - Potential obsolescence of equipment because of imminent technological improvements.

Lease vs. Purchase

7.401 -- Acquisition Considerations

- b) The following additional factors should be considered, as appropriate, depending on the type, cost, complexity, and estimated period of use of the equipment:
  - Availability of purchase options
  - Potential use by other agencies after its use by the acquiring agency is ended.
  - Disposition costs
  - Trade-in or salvage value
  - Availability of servicing especially for highly complex equipment; *e.g.*, can the equipment be serviced by the Government or other sources if it is purchased?
  - Imputed Interest (Assumed or estimated interest when the actual interest amount is unknown/not stated)

Lease vs. Purchase

Typical Equipment Leases

- Copiers
- Printers
- Fax Machines
- **Portable Buildings vs. Fixed Real Estate**

Lease vs. Purchase

Purchase Method

Generally, the purchase method is appropriate if the equipment will be used

- beyond the point in time when cumulative
- leasing costs exceed the purchase costs.

Lease vs. Purchase

	Lease	Cumulative Payments	Purchase
Months of Usage	$5,000		$50,000
1	$5,000	$5,000	$50,000
2	$5,000	$10,000	$50,000
3	$5,000	$15,000	$50,000
4	$5,000	$20,000	$50,000
5	$5,000	$25,000	$50,000
6	$5,000	$30,000	$50,000
7	$5,000	$35,000	$50,000
8	$5,000	$40,000	$50,000
9	**$5,000**	**$45,000**	**$50,000**
10	$5,000	$50,000	$50,000
11	$5,000	$55,000	$50,000
12	$7,000	$62,000	$50,000
		$62,000	$50,000

Lease vs. Purchase

Purchase Method (Cont'd)

Agencies should not rule out the purchase method of equipment acquisition in favor of leasing merely because of the possibility that future technological advances might make the selected equipment less desirable.

Lease vs. Purchase

Lease Method

- Appropriate if it's to the Government's advantage under the circumstances and may also serve as an interim measure when the circumstances –
  - Require immediate use of equipment to meet program or system goals; but
  - Do not currently support acquisition by purchase.

Lease vs. Purchase

Lease Method (Cont'd)

- If a justified, a lease with option to purchase is preferable.
- Long term lease should be avoided, but may be appropriate if an option to purchase or other favorable terms are included.
- If a lease with option to purchase is used, the contract shall state the purchase price or provide a formula which shows how the purchase price will be established at the time of purchase.
- 7.404 -- Contract Clause. 52.207-5- Option to Purchase Equipment, in solicitations and contracts involving a lease with option to purchase (Mandatory).

Lease vs. Purchase

Lease Period

- 207.470 -- Statutory Requirements.
- (a) Limitation on contracts with terms of 18 months or more. As required by 10 U.S.C.2401a, **the contracting officer shall not enter into any contract for any** vessel, aircraft, or **vehicle**, **through a lease**, charter, or similar agreement **with a term of 18 months or more**, or extend or renew any such contract for a term of 18 months or more unless the head of the contracting activity has
  - (1) Considered all costs of such a contract (including estimated termination liability); and
  - (2) Determined in writing that the contract is in the best interest of the Government.

Lease vs. Purchase

Lease Period (Cont'd)

- (b) *Leasing of commercial vehicles and associated equipment*. Except as provided in paragraph (a) of this section, the contracting officer may use leasing in the acquisition of commercial vehicles and associated equipment whenever the contracting officer determines that leasing of such vehicles is practicable and efficient (10 U.S.C. 2401a).

Lease vs. Purchase

Lease Period (Cont'd)

- 207.401--Acquisition Considerations. If the ***equipment*** will be leased for more than 60 days, the requiring activity must prepare and provide the contracting officer with the justification supporting the decision to lease or purchase.

Lease vs. Purchase

Overview

- Governing Directives
- Definitions
- Factors to Consider
- Appropriateness of Lease/Purchase Methods
- Lease Periods
- Lease vs. Purchase Analysis
- Summary

Lease vs. Purchase

Rabbanai T. Morgan
Chief, Contingency Contracting Team
Revised 6 July 2005